# STATE OF CONNECTICUT

**AUDITORS' REPORT**
**DEPARTMENT OF CHILDREN AND FAMILIES**
**CENTRAL OFFICE, REGIONS AND FACILITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 1996**


AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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# AUDITORS' REPORT
# DEPARTMENT OF CHILDREN AND FAMILIES
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# FOR THE FISCAL YEAR ENDED JUNE 30, 1996

We have examined the financial records maintained by the Department of Children and Families for the fiscal year ended June 30, 1996. These include the records maintained for the Central Office, the regional offices, and the facilities and institutions established by the Department.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations and Certification which follow:

## COMMENTS

### FOREWORD:

The Department of Children and Families (DCF) has been established and operates primarily under the provisions of Title 17a, Chapter 319, Sections 17a-1 through 17a-83 of the Connecticut General Statutes. In addition, under Sections 17a-90 through 17a-185 of Title 17a, Chapter 319a, and Section 17b-23 of Title 17b, Chapter 319o of the Connecticut General Statutes, the Commissioner and Department are charged with specific responsibilities in regard to overseeing the welfare of children.

The Department is a multi-service agency designed and operated to help meet the needs of children and youth in Connecticut. It is responsible for planning, developing, administering and evaluating a comprehensive program of services, including preventive services for children and youth whose behavior does not conform to the law or acceptable community standards, or who are mentally ill, emotionally disturbed, delinquent, abused, neglected or uncared for. These include all children and youth who are committed to it by any court or voluntarily admitted to the Department for services of any kind.

As of June 30, 1996, the Department consisted of the following Regional Offices, treatment facilities and institutions:

Region 1 - serving the southwestern portion of Connecticut
  Bridgeport Office
  Stamford Office
Region 2 - serving the south central part of Connecticut
  New Haven Office
  Meriden Office
Region 3 - serving the southeastern portion of Connecticut
  Norwich Office
  Middletown Office
Region 4 - serving the north central part of Connecticut
  Hartford Office
  New Britain Office
Region 5 - serving the western portion of Connecticut
  Waterbury Office
  Danbury Office
  Torrington Office
Region 6 - serving the eastern portion of Connecticut
  Willimantic Office
  Rockville Office
Long Lane School - located in Middletown
State Receiving Home - located in Warehouse Point
High Meadows Residential Treatment Center - located in Hamden
Riverview Hospital for Children and Youth - located in Middletown
Adoption Resource Center - located in Meriden
Training Academy - located in Bridgeport
Wilderness School - located in East Hartland

To comply with Section 4b-31 of the General Statutes, which required the establishment of uniform regional boundaries for State agencies, the Department of Children and Families was reorganized into five Regional Offices effective July 1, 1996.

The Department's caseload continued to increase during the audited period. Total referrals, for abuse, neglect, abandonment or at risk, were 24,658 cases involving 38,701 children for the 1995-1996 fiscal year. This is in comparison to 24,038 cases involving 37,043 children for the 1994-1995 fiscal year and 17,871 cases involving 27,710 children for the 1993-1994 fiscal year. A summary of client census statistics, for the audited period as compared to the previous fiscal year, for some of the various services provided by the Department follows:

| Number in Placement Category - | As of June 30, | |
|---|---|---|
| | 1996 | 1995 |
| Parent, Guardian or Relative | 1,787 | 1,220 |
| Foster Family Care | 3,916 | 2,792 |
| Subsidized Adoption | 2,664 | 2,501 |
| Private Institutions | 1,088 | 1,007 |
| Private Group Homes | 223 | 216 |
| Private Emergency Shelters | 152 | 159 |
| Independent Living Program | 154 | 165 |
| Long Lane School | 257 | 239 |
| Riverview Hospital | 31 | 58 |
| High Meadows | 39 | 36 |
| State Receiving Home | 53 | 47 |
| Psychiatric Hospital | 48 | 41 |
| Maternity Home | 12 | 10 |

Linda D' Amario Rossi has served as Commissioner of the Department since her appointment on March 1, 1995. Sharon A. Martin served as Deputy Commissioner for Program Services and Carl G. Hooper served as Deputy Commissioner for Administrative Services until the Department was reorganized in April 1996. That reorganization resulted in the appointment of five directors who administer the Offices of Administration and Finance, Program Development and Planning, Juvenile Justice, Child Welfare and Health, Mental Health and Education. On April 12, 1996, Susan Omilian was appointed Deputy Commissioner and Chief of Staff.

**Consent Decree:**

In December 1990, the Department entered into a consent decree to avoid litigation in response to a lawsuit filed in Federal Court by clients of the agency and others. The decree mandated specific changes to agency management, policies, practices, operations and funding. A court appointed monitor is responsible for overseeing implementation of mandates in the decree.

The large increases in appropriations and expenditures of the Department during the past several years are, for the most part, due to the implementation of such mandates.

**State and Regional Advisory Councils:**

Section 17a-4 of the General Statutes provides that the Governor shall appoint a State Advisory Council on Children and Youth Services consisting of 15 members. The duties of the Council include: recommending programs, legislation or other matters which will improve services for children and youth; reviewing and advising on the Commissioner's annual budget; interpreting to the community at large the policies, duties and programs of the Department; and, issuing reports it deems necessary to the Governor and Commissioner. The membership of the Council is to include at least five persons who are child care professionals, one child psychiatrist, at least one attorney and three members who are between the ages of 15 and 22 at the time of appointment. Members serve without compensation except for the reimbursement of necessary expenses. The Commissioner serves as an ex-officio member of the Council without a vote.

The members of the State Advisory Council at June 30, 1996, were as follows:

Jean A. Adnopoz
Albert S. Alissi
Christine E. Arruda
Karen Bartis
John W. Blanton Jr., MD.
Jane C. Bourns
Grace Cavero
Donald A. Gaskill
Donna Hartigan
Sang Hee Hartigan
Virginia B. Raymond
Herbert T. Schact
Joseph Woolston, M.D.

Two vacancies existed at June 30, 1996.

In addition to the above members, Priscilla August, Lucy Barrett and Jeffrey Bongard served on the Council for a portion of the audited period.

Section 17a-30 of the General Statutes provides that the Commissioner shall create in each region, a regional advisory council to advise the Commissioner on the development and delivery of services in the region and to facilitate the coordination of services in the region. Each council is to consist of no more than 21 members appointed by the Commissioner for terms ranging from one to three years. Council meetings are to be held at least quarterly.

**RÉSUMÉ OF OPERATIONS:**

During the fiscal year under review, funding for the general operations of the Department of Children and Families was provided by budgeted appropriations from the State General Fund. This funding was supplemented by restricted contributions in the form of Federal grants and private donations, grants and fees. A significant part of the Department's operating expenditures are reimbursed by the Federal government under the Foster Care - Title IV-E grant program. This program provides assistance on behalf of eligible children who are placed away from their families in foster care under the administration of the State. The program reimburses the Department for the board and care costs and administrative costs of such children.

**General Fund Revenues and Receipts:**

General Fund revenue and other receipts of the Department of Children and Families during the past two fiscal years are shown below:

| | Fiscal Year 1995-1996 | Fiscal Year 1994-1995 |
|---|---|---|
| Federal Participation, per Title IV-E of the Social Security Act | $70,659,208 | $51,220,247 |
| Child Nutrition Program | 394,958 | 340,897 |
| Refunds of prior years' expenditures | 956,700 | 791,277 |
| Refunds of current appropriations | 351,723 | 414,543 |
| Restricted contributions, Federal | 11,968,411 | 15,101,679 |
| Restricted contributions, other than Federal | 210,689 | 281,071 |
| All other revenues | 280,130 | 213,531 |
| **Total General Fund Revenue and Receipts** | **$84,821,819** | **$68,363,245** |

As indicated by the above analysis, revenues rose significantly in the audited period. Receipts from the Title IV-E Federal program increased during the audited period because of the general increase in the number of clients that had become eligible for the program. The Department also recovered significant administrative costs for the Title IV-E program which included costs related to the establishment of the Statewide Automated Child Welfare Information System. The decrease in restricted Federal contributions was due to a reduction in funding for several Federal grant programs.

**Bureau of Collection Services Receipts:**

Under the provisions of Section 17a-17, subsection (a), of the General Statutes, the Department of Administrative Services, Bureau of Collection Services, is authorized to bill and collect the total cost of care for children who have been placed under the guardianship of the Commissioner of Children and Families. Based on information furnished by the Bureau, receipts and billings during the year under review totaled $19,212,935.

Recoveries initiated by the Bureau from Title XIX and third parties (legally liable relatives and private insurance) for board and care of clients in Department institutions and facilities constitute a majority of such receipts and billings. These amounts are presented as follows:

| | Cash Receipts | Title XIX Billings | Total |
|---|---|---|---|
| Central Office | $3,156,034 | $ | $3,156,034 |
| Altobello Center | 25,558 | 135,212 | 160,770 |
| Connecticut Valley Hospital - Adolescent Unit | 50 | | 50 |
| Greater Bridgeport Children's Service Center | 6,905 | 46,922 | 53,827 |
| High Meadows Treatment Center | 7,819 | 406,336 | 414,155 |
| Housatonic Hospital | 6,325 | 82,292 | 88,617 |
| Riverview Hospital | 720,792 | 14,618,690 | 15,339,482 |

| | | | |
|---|---|---|---|
| **Total** | **$3,923,483** | **$15,289,452** | **$19,212,935** |

The above amounts include moneys received from children's social security benefits, survivor benefits and other contributions which are received by the Department of Children and Families and deposited in its Children's Trust Accounts Fund. These moneys are transferred to the Bureau of Collection Services on a regular basis. Transfers amounted to $2,043,827 for the fiscal year ended June 30, 1996.

**Per Capita Costs:**

Under the provisions of Section 17b-223 of the General Statutes, the State Comptroller is required to determine annually the per capita costs for the care of all persons in State institutions. Costs for the in-residence population for the 1995-1996 fiscal year are summarized below:

| | Average per Capita Costs | | | |
|---|---|---|---|---|
| | In-Patient | | Group Home | |
| | Daily | Annual | Daily | Annual |
| Long Lane School | $ 317 | $115,763 | $ | $ |
| State Receiving Home | 587 | 214,116 | | |
| High Meadows Treatment Center | 897 | 327,325 | 245 | 89,428 |
| Riverview Hospital | 953 | 347,877 | | |

**General Fund Expenditures:**

General Fund expenditures applicable to the Department of Children and Families for the past two fiscal years are summarized below:

| | Fiscal Year 1995-1996 | Fiscal Year 1994-1995 |
|---|---|---|
| Budgeted Accounts: | | |
| Personal services | $117,791,740 | $104,368,387 |
| Contractual services | 21,064,489 | 15,131,184 |
| Commodities | 4,099,857 | 4,507,309 |
| Sundry charges | 1,737,493 | 1,997,784 |
| State Aid Grants | 30,699,794 | 32,298,089 |
| State Aid Grants - Board and Care | 119,827,647 | 97,940,146 |
| Capital outlay | 70,776 | 98,187 |
| Total Budgeted Accounts | 295,291,796 | 256,341,086 |

| | | |
|---|---|---|
| Restricted Accounts: | | |
| Federal Accounts | 11,777,397 | 12,936,927 |
| Other than Federal Accounts | 223,143 | 236,791 |
| Total Restricted Accounts | 12,000,540 | 13,173,718 |
| **Total Expenditures** | **$307,292,336** | **$269,514,804** |

Expenditures from budgeted accounts for personal services increased by $13,423,353, or 13 percent as compared to the previous fiscal year. This increase was primarily due to a rise in the number of positions filled. Filled permanent personnel positions in the Department rose from 2398 full time and 146 part time as of June 30, 1994 to 2641 full time and 160 part time as of June 30, 1995. As of June 30, 1996, the Department had 2937 full time and 144 part time positions. In December 1990 the U. S. District Court imposed a consent decree upon the Department. The Department has been required to add personnel positions in response to the decree, which requires reductions in the caseloads of each social worker.

Budgeted expenditures in the category of State Aid Grants - Board and Care increased $21,887,501 or 22 percent. These expenditures primarily consisted of board and care payments made to foster homes, institutions and other private providers that were disbursed through a checking account maintained by the Department. The increase in these expenditures was attributable to changes in Department policies that resulted in a significant increase in the number of children placed in foster care.

**Capital Projects and Grants-in-Aid Financed from the Proceeds of Bond Sales:**

Expenditures from various Special Revenue and Capital Projects Funds totaled $10,070,651 during the fiscal year ended June 30, 1996, as compared to $4,526,358 during the fiscal year ended June 30, 1995. Expenditures were primarily for the construction, addition and renovation of State owned facilities and purchases of equipment. The increase in the fiscal year ended June 30, 1996, was primarily due to $3,073,664 in capital projects expenditures for the Riverview Hospital in Middletown and $1,601,796 in capital equipment expenditures for computer equipment.

Under various Bond Acts passed by the Legislature, the Department extended grants-in-aid to its private providers for alterations, repairs and safety improvements to facilities and group homes used in conjunction with children's programs funded by the Department. Several providers also were given grants to fund major capital acquisition and building programs. The Department expended $2,465,242 for these grants-in-aid to private providers during the fiscal year ended June 30, 1996, as compared to $1,107,307 during the fiscal year ended June 30, 1995.

**Fiduciary Funds:**

There are a number of Fiduciary Funds which are administered throughout the Department. A brief description of the funds and their purpose follows:

Central Office - Children's Trust Fund:

Under the provisions of Section 17a-50 of the General Statutes, the Department, with the advice of the Children's Trust Fund Council, administers a Children's Trust Fund to fund programs aimed at preventing child abuse. Receipts, primarily from donations, totaled $80,591 for the fiscal year ended June 30, 1996. Disbursements, primarily for the salary of a fund raising professional, totaled $21,668, for the same period. Total assets of the Fund were $58,926 as of June 30, 1996.

Central Office - Children's Trust Accounts:

Under the provisions of Section 46b-129 of the General Statutes, the Commissioner of Children and Families may be appointed guardian of any uncared for, neglected or dependent child committed to her by the Superior Court. The Commissioner, as guardian, is allowed to receive and use property of a child in an amount not to exceed $5,000, as provided in Section 45a-631 of the General Statutes. As of June 30, 1996, there were 524 active trust accounts being maintained for such children. The cash on hand in these accounts, as of June 30, 1996, totaled $708,697.

Receipts come primarily from social security benefits, survivor benefits and other contributions received on behalf of the children. Disbursements are primarily to the Department of Administrative Services, Bureau of Collection Services, for the cost of board and care. A minimum balance of $600 is kept as a reserve for each child and is paid to the child upon his/her passing from the Department's care.

Central Office - Welfare Fund:

This fund was established to account for private gifts and donations received by the Department to be used on behalf of children in its care. Most of the initial funding was received by the Department as donations through the Aetna Foundation for the benefit of foster children with AIDS. The use of these funds continues to be restricted for such purposes. Total assets of the Fund were $36,059 as of June 30, 1996.

Welfare Funds and Activity Funds at the Regions and Facilities:

These funds were established to account for private gifts and donations received. Funds are generally used for the welfare and activities of children under the care of the Department. Individual welfare fund accounts are maintained at Long Lane School, the State Receiving Home, and the regional offices. Individual activity fund accounts are maintained at Long Lane School, Riverview Hospital and High Meadows Treatment Center.

Donation Fund - Long Lane School:

The Donation Fund was originally established from unexpended public donations and legacies at the time the State acquired the institution from private interests. The purpose of the fund is to provide recreational, educational and other advantages for the residents at Long Lane School.

Assets of the fund consist of investments in real estate and short-term investments. Income from the rents of ten single-family dwellings constitutes a majority of fund revenue. Interest on investments also contributes to fund resources. Total assets of the Fund were $1,310,383 as of June 30, 1996.

Residents' Cash Fund - Long Lane School:
Children's Allowance Fund - State Receiving Home:

These funds are maintained to control the custodial accounts of individuals residing at these facilities. Assets belonging to the residents, such as monies in their possession at admission, monetary gifts and wages earned through the work pay programs, comprise the major source of receipts for these funds.

**PERFORMANCE EVALUATION:**

Background:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected agency operations. Our review consisted of a study of the Department's effectiveness in its administration of the grants and contracts with private providers. During the 1995-1996 fiscal year the Department expended approximately $30,000,000 in grants-in-aid to private providers from various State General Fund appropriations. Previous audits have cited the Department for poor administration and monitoring of grants and failure to review the audit reports of the grant recipients.

The Department distributes its General Fund State grant awards under 11 different programs. They are primarily disbursed and administered by the Department's regional offices. A listing of the more significant programs and the amount of funds disbursed during the 1995-1996 fiscal year follows:

| | |
|---|---|
| Child Guidance Clinics - based on a core contract to develop and maintain a program of psychiatric clinics or community mental health care facilities for children and families. | $9,807,982 |
| Family Preservation Services - to provide care and support of children whose family is in acute crisis, granting intensive in-home services, family reunification services and residential treatment of drug or alcohol dependent adolescents. | $4,510,333 |
| Treatment and Prevention of Child Abuse - grants to municipalities and nonprofit organizations to develop and maintain programs for the treatment and prevention of child abuse and neglect. | $3,489,548 |
| Community Preventive Services - grants to municipalities and community based agencies to provide both direct and indirect services such as parent, peer and family life education, early childhood programs and other education and information programs. | $2,844,905 |
| Child Welfare Support Services - using a master contract for services to provide screening and referral, recruitment and placement planning for permanent home placement of children requiring adoption. | $1,698,244 |
| Health and Community Services - grants and contracts with community based agencies and private practitioners to provide clinical and pediatric services, AIDS programs, health screening for children and families and to provide programs for substance abusing mothers with infants. | $1,420,730 |
| Substance Abuse Treatment - grants and contracts with community based | $1,206,982 |

agencies to provide outreach, assessment, and out patient services and extended day treatment services.

| | |
|---|---|
| Extended Day Treatment - to provide a program of treatment services for emotionally disturbed children that are able to live with their families but are in need of therapy, care and training. | $1,033,089 |

The use of private providers and not-for profit agencies to provide services for the Department's clients requires the use of controls and monitoring to ensure that State resources are used effectively and efficiently, in accordance with the grant agreement. This requires a system of internal controls to ensure that State funds are expended for the purpose intended by the appropriation, by State statute and Department regulations. The controls should also ensure that payments are properly authorized and in the correct amounts. Grantees should be monitored to ensure they are performing according to the provisions of the contract or grant agreement and that only those costs that are eligible under the program are allocated to the grant expenditures.

The objective of our review of the Department's grant monitoring was to determine if the Department had established an effective program of monitoring its grantees. We planned to determine if the Department is employing a proper organization to meet this goal. We also wished to determine if the management of the Department has made the effective administration of these grants a priority. To do so, our review included an examination of the Department's policies and procedures for contract administration. Our review included an examination of the organizations performing grant monitoring within the Department, at the Central Office, including the Department's Contracts Unit and Internal Audit Unit, and at the regional offices. We also examined the Department's performance in its review of grantee audit reports, quarterly financial reports and programmatic reports, as well as the frequency and quality of monitoring visits and field audits.

We found that, as described below, the Department does not effectively monitor its grant awards to ensure that such expenditures meet its own objectives and policies. The grants administration function at the Department's Central Office was not organized to provide centralized, effective controls. The responsibilities to perform fiscal monitoring of grant programs, such as the review of quarterly financial reports and audit reports is assigned to various program personnel that do not have experience working with accounting records. The audit reports prepared by the grantees' independent auditors do not provide an effective monitoring tool. We also found the Department's Internal Audit Unit is not utilized properly. As a result an insufficient number of the Department's grantees receive monitoring visits or field audits.

<u>Department Policies and Procedures - Contract Administration:</u>

The Department has established policies and procedures over the disbursement of grant or contract monies. They are described in the Department's Contracts Policy and Procedure Manual. The Department must assure compliance of its grant awards with State grant requirements as described by the Policy and Procedures Manual, the State Single Audit Act (Section 4-230 to 4-236 of the General Statutes) and legislative budgetary intent.

The Central Office and the regional offices of the Department maintain contract units to administer the contracts and State grant awards of the Department. The grant monies are paid from separate appropriations established for the Central Office and each regional office. The various program units of the Department's Central Office and regional offices are responsible for the solicitation of grant proposals, the selection of providers and the allocation of grant monies for the programs they administer. Large grants or contracts, providing services statewide, are solicited by the program development staff at the Department's Central Office. After the procurement process, all contracts are reviewed and approved by the Contracts Unit at the Department's Central Office. Most of the large contracts are with grantees that have been awarded a contract by the Department for some length of time. After the initial application and approval, these agreements were renewed in subsequent years under a noncompetitive blanket contract.

There are several review steps that must be completed before any grant or contract receives payment. The contracts units will prepare a review sheet which confirms that the required documents pertaining to the contract are on file and are properly prepared. The review sheet includes such items as the quarterly fiscal reports, quarterly programmatic reports, insurance certificates, certificate of incorporation, nonprofit status determination and the most current audit report. The contracts units receive these reports and are required to maintain a file for them.

Our current audit of the Department included the selection and testing of a random sample of 25 grant awards. As detailed below we found a significant number of the grant files tested that did not have all of the necessary documents on file before payment. We noted the Department is hesitant to withhold funding from grantees that have not complied with requests for quarterly reports and/or audit reports. The financial condition of many providers is such that withholding quarterly payments would place an extreme hardship on that provider.

All grant contracts include language requiring the grant recipient to submit quarterly fiscal reports to the Department. These reports are to be received and reviewed each quarter. At the close of the fiscal year the grant contract is "cost settled" by reconciling the quarterly report for the final quarter to the grant budget. This reconciliation is to be completed within 30 days after the end of the quarter. If the review finds that the program expenditures reported in the final quarter exceeded the contract amount, the grantee will absorb the difference. If the grant payments exceeded reported expenditures, the Department will record an accounts receivable for the surplus. The receivable is collected and deposited to the State General Fund. At the regional offices, the contracts unit within each regional office is assigned to receive the quarterly fiscal reports and reconcile the financial report for the final quarter to the grant budget. In the Department's Central Office this function is assigned to the various program personnel assigned to administer the grant.

Our audit of the Department for the 1994-1995 fiscal year and our current audit have cited the Department for not receiving these quarterly reports in a timely manner, not reconciling them promptly and not recording and reporting the accounts receivable from grantees. In our current audit we found the Central Office was the most deficient in this regard. Our review of the records that are maintained at the Central Office and regional offices found that many of these reports were either not filed on time or not filed at all. We selected and tested a random sample of 25 grant awards. Of that sample, eight were administered at the Central Office and 17 were administered at the regional offices. We found ten grantees that did not have their quarterly fiscal reports on file. We also asked as to the timeliness of the year end settlement of grant expenditures. Out of the eight grant awards administered by the Central Office, we were unable to obtain cost settlement worksheets for four of them. We found inconsistencies between regional offices as to the type of worksheet used to prepare the cost settlement. Some regional offices used a special worksheet for the calculation; other regional offices prepared the reconciliation on the grantees own quarterly reports. The more detailed special worksheet documented unallowable and allowable costs and the percentage of program costs funded by DCF. The Department has not prepared a standard method for the Central Office and regional offices to follow.

The grant contracts also require the submission of various quarterly program reports. From the same sample of 25 grantees described earlier, our review found four of them that either did not have the required programmatic reports on file or did not respond to our repeated requests for them.

The contracts also include language to the effect that an audit must be provided as required by the State Single Audit Act. Audits are required within six months of the grantees' fiscal year end. The audit is conducted by an independent auditor, generally a Certified Public Accountant retained by the grantee. It is the established procedure under the State Single Audit Act for the audit reports of grantees to be reviewed by the State Office of Policy and Management first. After a desk review by that agency, the reports are forwarded to the DCF Central Office with a checklist attached, prepared by the Office of Policy and Management, detailing the results of the review. The Internal Audit Unit will consider the review checklist to identify audits that require further action. If any discrepancy exists for either an audit or quarterly report, a letter will be sent by DCF to the grantee, asking for additional information, dollars owed, or a plan for corrective action, as the case may be. Any unresolved differences with the grantees can cause a future payment to be withheld. An audit file for unresolved conditions is to be maintained by each contracts unit.

We reviewed the process for reviewing audit reports used by the Department. We randomly sampled the grant files for 25 grant contracts. In this sample we found two grant files that did not have a copy of the most recent audit report in them. The system of receiving the audit reports from the Office of Policy and Management was introduced most recently, with audits of the grantee's 1994-1995 fiscal year received and reviewed by the Department of Children and Families in the 1995-1996 fiscal year.

Our review found that the Department is not able to make effective use of the audit reports. There are certain deficiencies with the audits and audit reports of the Department's grantees that make the independent audits less valuable as a monitoring tool. In the audit report, program expenditures are usually listed as the net total of several grant programs together. As a result, an individual grant and the total expenditures for that grant are not specifically identified in the financial statements. We also found that the expenditures included on the quarterly fiscal reports described above are not based on audited figures. This deficiency renders it difficult to reconcile the audited totals to the quarterly fiscal reports. We also note that cost allocation methods are not documented in the reports, again making it difficult to match reported program expenditures to a particular grant and to verify that only allowed costs were charged to the program.

Department Organization - Central Office Contracts Unit:

In the 1995-1996 fiscal year the Department of Children and Families retained a consultant to review the organization and staffing of the Central Office of the Department. In February 1996, as a result of a consultant's report, the Contracts Unit was incorporated into the newly created Division of Budget and Finance. The Contracts Unit was previously a part of the Community Services Division. That division was dissolved at Central Office and its units transferred to other divisions of the Department. We did note, however, that the Community Services Units at the Department's regional offices remained unchanged.

The Contracts Unit is one of the six units that comprise the Division of Budget and Finance. The other units comprising the Division are responsible for the operation of the business office, rate setting for providers, revenue enhancement, budget, and engineering. The consultants recommended the transfer of the Contracts unit to the Division of Budget and Finance to "*focus more sharply on the important fiscal and administrative functions essential to an efficient and well-run Department.*" The report further states that "*this consolidation brings together related fiscal functions that are unnecessarily fragmented. In particular, the contracts and business office functions interrelate both in Central Office and in the regions."* Lastly, the report states that "*the contracts functions in the future should be more closely focused on contract registration, implementation and fiscal monitoring.*"

The Central Office Contracts Unit is responsible for the procurement and execution of the grant contracts. Previously, the unit was not assigned any grants or contracts monitoring activity, either fiscal or programmatic. In response to previous audit recommendations the Department has recently implemented a change to make its Central Office Contracts Unit the control point for the receipt of the quarterly financial reports and audit reports. At present, as described below, the responsibility for the review of these reports is assigned to various individuals within the Central Office.

Department Organization - Fiscal Monitoring of Contracts:

Our review of the fiscal monitoring of the grant awards administered by the Central Office found no single unit is performing the fiscal monitoring of the grant programs it administers. This function is assigned to the various program personnel to which a particular grant is applicable. We also noted that the program personnel assigned to review and reconcile the quarterly financial reports at the Central Office did not routinely work with accounting records.

In contrast, we found the Department's regional offices maintained a more effective system for the fiscal monitoring of grantees. The contracts units at the regional offices were staffed with an adequate level of personnel with the appropriate job titles of Fiscal Administrative Officer or Fiscal Administrative Assistant. Responsibilities were clearly defined, with the contracts unit responsible for the fiscal monitoring of all of the grant awards for that region.

Further fiscal monitoring is assigned to the Department's Internal Audit Unit. The Department's Policy Manual describes a program of external monitoring and external audit that is assigned the Internal Audit Unit. A monitoring visit is a limited review of the grantees financial records as they apply to DCF grant receipts. The Internal Audit Unit staff will select one of the Department's grantees, visit that grantee and examine the financial records. The Internal Audit Unit will specifically test actual payroll expenditures to the budgeted amounts. The allocation of indirect costs is examined as are the non-payroll expenditures. This examination generally takes two to three days. If discrepancies are found in the grantee's records that are material in nature or are serious inaccuracies, an external audit may be conducted.

An external audit is a more detailed examination that will include prior fiscal periods. The external audit will most frequently be based on the audit of the grantee conducted by independent auditors that is required by the State Single Audit Act. It will include programs funded by the Department of Children and Families as well as other programs that may affect a Department program. We found this program of external monitoring and external audits has not been utilized to any significant extent. During the fiscal year ended June 30, 1996, the Internal Audit Unit conducted four monitoring visits and two audits of the Department's 130 grantees.

We reviewed the four monitoring reports and two audit reports and noted that all of them included findings of significant deficiencies in the accounting of State grant funds. The reports cited grantees that did not properly allocate expenditures between programs funded by the Department and programs funded by other sources. The monitoring visits and external audits found that amounts included on the grantees' quarterly reports did not reconcile with the amounts recorded on the grantees' general ledger. The monitoring reports described certain payroll expenses, such as bonuses and fringe benefits given to management that were not reported to the Department. These reports also described indirect costs that were not substantiated and the failure to submit budget revisions on time or at all. The two audits conducted, covering $1,599,489 in program expenditures, disclosed $116,916 in unallowed costs that are due the Department. We believe that the resources expended on these audits are justified by the amount of unallowed or inappropriate costs they have identified.

<u>Department Organization - Programmatic Monitoring of Contracts:</u>

Section 17a-3 (f) of the General Statutes specifies that the Department of Children and Families shall conduct studies of any program, service or facility developed, operated, contracted for or supported by the Department in order to evaluate its effectiveness. Our review found there is no single unit that performs this task. Program monitoring positions at the Department's Central Office can be found in at least two units and in at least three subunits of the Central Office. This is the result of the differing nature of the services provided from the grants; such as substance abuse treatment, health care, psychiatric care, adoption services and education or preventive services. We also found the monitoring positions had employees with differing job titles, such as Planning Specialist, Child Services Consultant, and Social Worker Supervisor. It was unclear as to whether these positions had other non-grant related duties or if there was any conflict between the roles of developing and planning programs that may be provided by grantees and monitoring of the performance of those grantees.

For example we found program monitors assigned to the Family Treatment Services Unit within the Division of Planning of the Department's Bureau of Program Development and Planning. We noted that the consultant's report placed that unit in the Bureau of Program Development and

Planning to bring together "*All elements of research, clinical planning, strategic business planning, program development, and policy development . . .*" This statement seems to suggest that contract monitoring would not be a normal function of the Division of Planning. If the organizational structure used at the regional offices are used as a model for the Central Office, the program monitoring should be performed by the position of Children's Services Consultant within a Community Services Unit. The Community Services Unit was eliminated at the Central Office but is still part of the regional organization. When the Department did maintain a Community Services Unit at Central Office, there was no formal relationship between it and the regional community services units. The community services unit at a regional office reports to the program director at that region.

At the regional offices we found the program monitoring function was the responsibility of the Community Services Unit in that region, staffed by employees with the job titles of Child Services Consultant, Lead Planning Analyst or Social Worker. We found some contracts units at the regional offices also had Child Services Consultants assigned to them. These employees were conducting the programmatic monitoring done by these units. The program and fiscal staff worked as a team to provide effective monitoring.

The Central Office Bureau of Program Development and Planning also maintains a Division of Quality Assurance. This Division was established to consolidate all quality assurance, administrative case review, program review and evaluation, and the licensing of institutions. The monitoring of service providers retained by the Department by grant or contract would be the logical function for this Division.

<u>Department Organization - Internal Audit Unit:</u>

Internal audit units of State agencies have generally had an integral role in the administration and monitoring of grant programs. The Department of Children and Families, however, has not made effective use of its own Internal Audit Unit. The inappropriate use of the DCF Internal Audit Unit, and the lack of an effective internal audit program was the subject of a recommendation in our audit report of the Department for the 1994-1995 fiscal year and this recommendation has been repeated in our current report. We found that at least half of the personnel hours of this unit have been used for non-audit purposes, performing routine business office functions.

The consultant's report recommended that the Internal Audit Unit be placed within the Division of Quality Assurance. The intent of this action was to maintain a separation of the Internal Audit Unit from the administrative units it is to be auditing. We found that this recommendation has not been implemented. Instead, the Internal Audit unit has remained within the Bureau of Administration and Finance. The head of the Internal Audit Unit currently reports directly to the Bureau Chief of Administration and Finance. Regardless of the organizational placement of the Internal Audit Unit, it had been our observation that this unit has not exhibited the willingness, or organizational independence, to critically review organizational structure and operations.

As noted earlier in this report, the Department's Internal Audit Unit has not performed periodic reviews of the Department's grantees for the past several years. It appears that this lack of independent internal review has contributed, at least in part, to the problems found with grants administration. The Auditors of Public Accounts - 1996 Annual Report to the General Assembly recommended that internal audit units at the Departments of Mental Retardation and Mental Health and Addiction Services should be strengthened by legislative mandate to conduct audits of community based private providers or perform quality assurance reviews of the outside audits of such providers. We believe that the Department of Children and Families, while not relying on its private providers to the same extent as those agencies, would equally benefit from an effective internal audit effort.

Findings:

- As a general finding, the Department should fully develop and define its grant administration function.

We were unable to detect an integrated departmental-wide approach to this activity. We could not find evidence of any formalized operational and reporting relationship among the units of the Department that have grant responsibilities, namely: Central Office Contracts Unit, Central Office Internal Audit Unit, Central Office Treatment and Family Services Unit, and the regional community services units. We found the duties and responsibilities of the various units within the Department are not clearly delineated. This lack of formalization not only lessens the assurance that all contracts receive adequate monitoring for compliance with contractual terms, but most likely results in the ineffective use of Departmental resources.

Specifically, the Department needs to reorganize its resources with the objective of determining the optimal number of positions, position titles, and organizational placement of the grants administration and monitoring positions throughout the Department. At the Central Office, program monitors are organizationally placed in several units and have at least three different job titles. We also note that changes in the organization of the Central Office can affect the organization of the regional offices. We note that the Department has, in recent years, realigned duties and responsibilities between the Central Office and the regional offices. The Department needs to examine the relative capabilities of the Central Office and regional offices in respect to the grant monitoring function, to determine if changes are desirable.

- The Department should make effective use of its Internal Audit Unit, in particular in the area of grants administration.

The Department has not made the function of internal audit a larger part of its grant administration process. This issue needs to be promptly considered, particularly in response to the passage of the State Single Audit Act. One of the first corrective steps the Department should make is to remove non-audit related assignments from the Internal Audit Unit so that its resources can be spent performing the grantee monitoring and audit duties described in the DCF Policy Manual. The organizational structure of the Department should also be revised to allow the Internal Audit Unit to be independent of the operations it is auditing.

- The Department should consider placing all fiscal responsibility for administering grants, including payments and monitoring, with the Central Office, while assigning the programmatic monitoring to the Regions. It should also consider assigning the regions the programmatic monitoring for those contracts that are solely administered by the Central Office.

The fiscal administration of grants can readily be performed as a centralized function, as it involves the routine process of quarterly payments and the collection and review of quarterly fiscal reports and of audit reports. Efficiencies would most likely accrue from the elimination of duplicate efforts in behalf of those grantees with contracts providing services for more than one region. Specialized positions, with personnel trained to examine quarterly fiscal reports and audit reports, could be established. This would serve to reduce the total number of positions performing this work, while providing better fiscal monitoring of grantees.

We also believe that the programmatic monitoring of grantees is appropriately a function of the regional offices. The case workers for children in the custody of the Department are based there and proximity and close interaction with the grantees is a necessity. The responsibility for allocating grant monies was, some years ago, shifted from the Central Office to the regional offices. The intent of this action was to allow the regions to base funding decisions on the regional office's evaluation of a grantee's performance. The fiscal administration of the grants was unaffected by this change. The regional offices may provide the best evaluation of the services provided by grantees.

- The Department's Central Office should develop the necessary processes and records that can provide control over the submission of required grant reports and over the cost settlement of grants at fiscal year-end.

Unlike the regional offices, the Central Office does not employ a comprehensive, centralized approach to this activity. Instead, the Central Office relies on the records of individual contract monitors to review the quarterly reports and prepare the cost settlement at year end. Our review of the grants administered by the Central Office found that there is poor internal control over this activity and errors and omissions have occurred and have not been detected by agency personnel. We found instances where required programmatic reports were not received and where the year end cost-settlement was not done. We also could not detect any official supervisory review of this activity.

**Effectiveness of Administration, Monitoring and Audit of State Grant Awards:**

*Criteria:* Grant contracts should be administered to promote the effective and efficient use of State resources and to meet the statutory requirements and policies of the State. The proper administrative control of grant contracts requires an organization with a planned system of operation, and with established standards and priorities. The system should be coordinated with the objectives and needs of other functions of the Department. The administrative controls used to monitor grantees should operate with the intent of identifying areas needing improvement.

*Condition:* The expenditure of grant awards is not monitored effectively to ensure that such expenditures meet the Department's objectives and policies. The audit reports prepared by the grantees' independent auditors do not provide an effective monitoring tool. The Department's Internal Audit Unit is not utilized properly. Three of the six persons assigned to the Internal Audit Unit were performing duties unrelated to internal auditing. An insufficient number of the Department's grantees receive monitoring visits or field audits. The grants administration function at the Department's Central Office was not organized to provide centralized, effective controls. The responsibilities to perform fiscal monitoring of grant programs was assigned to various program personnel that did not routinely work with accounting records.

*Cause:* The Department has not made the effective administration, monitoring and audit of its grant awards a priority. It does not make effective use of its internal audit resources. It has not created an organization that works well with a coordinated effort to ensure grantee performance, both fiscal and programmatic.

*Effect:* The Department is not assured of the performance of its grantees. Grant monies from the Department could be misallocated to other grantee expenditures without detection.

*Recommendation:* The Department should review the organization, controls and procedures over the monitoring of its grant providers. (See Recommendation 1.)

*Agency's Response:* "The Department agrees with a number of the findings and recommendations referred to in this Performance Evaluation. In addition to changes already implemented in this regard, the Department has plans to continue to improve the organizational structure related to contract administration, increase the use of the internal audit unit in this area and to further strengthen the fiscal and programmatic aspects of contracts administration."

## CONDITION OF RECORDS

Our examination of the records of the Department of Children and Families revealed several areas requiring improvement or further attention as discussed below:

**Client Eligibility for Foster Care - Title IV-E:**

*Criteria:* The Department's Policy Manual specifies that the mission of the Revenue Enhancement Unit is to maximize the recoupment of State child care expenditures by using Federal resources.

*Condition:* Our audit of the Department for the 1994-1995 fiscal year conducted a program evaluation of the Department's Revenue Enhancement Unit. Our review of cases sampled from the Department's files found many cases that were not claimed for Title IV-E reimbursement because they were not assigned the necessary reimbursement code by the Department.

Our review for the current audit found improvements have been made. The eligibility review conducted by the consultant retained by the Department has been effective in establishing many DCF children as eligible for Federal programs.

However, we found that there were still a significant number of cases that were not promptly assigned an eligibility code. A review of the maintenance report for the quarter ended June 30, 1996, found 350 cases that were not assigned an eligibility code. We also found that the Department has not been making its six month redeterminations of eligibility in a timely manner. Changes in a child's eligibility status or corrections of errors made in the initial determination of eligibility were not made, in some cases, until almost one year later.

*Cause:* The Department's Revenue Enhancement Unit was unable to provide the prompt follow up of cases that did not have an eligibility code assigned to them or perform the six month redeterminations of eligibility on schedule.

*Effect:* The Department failed to establish children's eligibility promptly for the Foster Care - Title IV-E program for significant numbers of children. As a result the State was not able to collect available Federal recoveries in a timely manner.

*Recommendation:* The Department should improve the effectiveness of its revenue enhancement effort by expediting the eligibility determination and redetermination process. (See Recommendation 2.)

*Agency's Response:* "The Department agrees that although improvements have been made, there continues to be delays in the determination of eligibility for some children. The eligibility delays may result in a corresponding delay in receiving Federal funding, but it does not result in the loss of Federal funding as retroactive adjustments are allowed for 24 months. A significant improvement in timeliness of eligibility reviews is anticipated when LINK, the new Statewide computer system, is fully operational. LINK replaced a manual system which was used to identify eligibility work to be performed with an automated approach."

**Quarterly Reporting of Grantees:**

The Department administered over $30,000,000 in grants-in-aid from State funds to various nonprofit organizations during the fiscal year under review. By contract, grantees are required to maintain financial records and to report on their operations. Our review of the monitoring efforts made at the Central Office and the regional offices disclosed the following:

*Criteria:* The receipt and review of financial and program reports enhances the Department's ability to insure that grant funds are being used properly and that unused funds are returned. The Department's Grants and Contracts Procedures Manual requires grantees to submit quarterly financial reports within 30 days after the end of the quarter.

*Condition:* In our tests of a sample of nine grants administered by the Central Office, there were four in which we could not obtain quarterly financial reports or programmatic reports. We found nothing on file in the Department that indicated that the fourth quarter (year end) financial report was received by the Central Office within the allotted time and reconciled to the grant budget.

Quarterly financial reports were not submitted in a timely manner. Reported expenditures were not reconciled to the grant budget in order to identify grant overpayments for collection.

*Cause:* The Department's management failed to establish and enforce a system and controls to ensure that all required reports are received in a timely manner. The Department also failed to enforce compliance on the part of the providers.

*Effect:* Pertinent data presented in the grantee financial reports has not been made available to the Department for review. Grantees that owe unexpended funds to the Department have not been promptly identified.

*Recommendation:* Reports from grantees should be submitted and reviewed in a timely manner. Unused funds and disallowed costs should be identified and requested to be returned in a shorter period of time. (See Recommendation 3.)

*Agency's Response:* "Valid points are made in the audit comment and will be addressed in the following manner. The Central Office will maintain a comprehensive listing of the status of all quarterly financial reports which will be readily available to all regions. Central Office Contract Administrators will also have access to and be required to review this data prior to authorizing payments. Payments to providers who have not submitted their reports will be held until data is received and reconciled. This process should ensure the timely submittal of reports."

**Generally Accepted Accounting Principles (GAAP) Reporting:**

In conjunction with our audit of the State Comptroller's Office and the preparation of the State's Comprehensive Annual Financial Report (CAFR) for the 1995-1996 fiscal year, we reviewed the financial data submitted by the Department to the Comptroller in its GAAP reporting package.

*Criteria:* The submission of complete and accurate GAAP information is instrumental in producing a fairly stated State Comprehensive Annual Financial Report. The State Accounting Manual issued by the State Comptroller has issued instructions on the proper completion of the year end GAAP reports.

*Condition:* Our review of the Department's GAAP package disclosed several concerns as follows:

The Department did not report the accounts receivable from foster families resulting from overpayments of board and care expenditures from the Child Welfare Account.

The Department also did not report the accounts receivable and payable from or to institutions that resulted from overpayments or unpaid billings from the Child Welfare Account.

The Department reported $65,756 as an account receivable resulting from refunds of expenditures. These amounts were, as of June 30, 1996, neither measurable nor available and were included in error.

Our review of the reported receivables from Federal programs found that the Department reported a receivable balance of $20,623,450 for the Foster Care - Title IV-E major Federal program. The Department

included in this total, in error, an advance of the grant award for the September 1996 quarter. The correct receivable amount was $8,366,620.
We found that the Department did not report the accounts receivable resulting from overpayments of those grants administered by the Central Office. Because the financial reports from the grantees have not been reconciled to the grant budget, it was not feasible to calculate an amount for an adjustment. We did determine that $7,817 in grant overpayments was collected by the Central Office in the period from July 1, 1996 to August 31, 1996.

The Department is required to report the year end balance of the Child Welfare Account to the State Comptroller. The Department administers three board and care appropriations and amounts from five other appropriations representing other programs in the Child Welfare Account. This resulted in a total of eight separate budget appropriations in this single checking account. Without the specific identification of expenditures by appropriation number code, the ability to report individual year end balances is lost. In addition, budgetary controls over the appropriations is affected. Expenditures that exceed appropriations for one program could be absorbed by another appropriation, as long as the appropriations from the individual accounts, taken as a whole, equal or exceed the expenditures from the Child Welfare Account in total.

Our testing of the worksheets prepared to calculate the year-end balance of compensated absences found significant differences with those balances reported for the previous fiscal year. Accrued vacation time increased 305,136 hours and accumulated sick leave decreased 181,582 hours or approximately 24 percent. These differences were primarily found in the reported balances for Riverview Hospital and the six Regional Offices. The Department's Payroll Unit could not provide an explanation, nor were they able to locate the worksheets used to prepare the balances included in the previous year's GAAP report.

Procedures specified by the Comptroller's Property Control Manual require the Department to report annually (by August 1st) its fixed assets inventory total to the Comptroller. We found these reports were not prepared in compliance with the Comptroller's instructions. On one report, the reported balances were not properly prepared by using a beginning balance equal to the prior years closing balance and adjustments for the appropriate additions and deletions. The Central Office and one Regional Office (Region 4) failed to prepare and submit any property inventory reports.

We also found, at the time of our review (October 1996), that the Department was still in the process of performing a physical inventory count and establishing proper inventory records for its offices and facilities. As a result, the amounts reported were not based on an inventory record supported by a physical count. The reported inventory total had no relation to the value of equipment actually on hand. Therefore, many of the amounts included on the annual report were not based on an accurate or complete record.

*Cause:* Failure to follow the instructions of the State Comptroller and clerical errors were the causes of these conditions. The absence of a centralized accounts receivable system contributed to the exclusion of receivables from the GAAP report.

*Effect:* The above mentioned conditions have the effect of providing inaccurate and/or incomplete information on the Department's GAAP reporting.

*Recommendation:* The Department needs to supply more accurate and complete information to the State Comptroller as part of the GAAP reporting process. (See Recommendation 4.)

*Agency's Response:* "A considerable effort will be made to bring the Department into compliance in the area of GAAP reporting in the current year. An accountant has been added to the Child Welfare Accounting staff to assist in maintaining the schedules necessary to document the accounts receivable. Additional man-hours will be added to the efforts of the staff in reconciling the institutional and foster care accounts over the next few months in order to determine and record any additional accounts receivable. Efforts will also be intensified to correct other identified areas impacting our GAAP reports."

**Child Welfare Account:**

The Department has established a direct disbursement checking account to disburse board and care payments to foster care and adoption families. These disbursements are paid from State General Fund appropriations. This account issued approximately 65,500 checks, representing $123,304,766 in board and care payments made to foster families and private providers during the 1995-1996 fiscal year. Payments were for either the monthly board and care of children or weekly payments for miscellaneous expenses not covered by the monthly payment.

This system was established outside of the general controls of the State Comptroller's accounting system. The account is overseen by the Child Welfare Accounting Unit at the Central Office and the payments are processed through the Department's computer system. Much of the authority and control over these payments, including entering them into the system, is vested in the Regional Offices. Payments are generated when the staff at the Regional Office prepares and submits a Placement and Payment Form (Form 383) to be entered into the computerized vendor payment system.

Controls Over Disbursements:

*Criteria:* Section 3-117 of the Connecticut General Statutes and proper business practice requires that payments of claims against the State be made in the correct amount and only for goods or services certified as actually received. Proper internal controls require that payments be authorized by management or another responsible person. The Department's Policy Manual specifies the manner in which the authorization of payments and the receipt of goods or services are be documented.

*Condition:* We randomly sampled 104 payments from the Department's direct disbursement checking account. These payments were made on behalf of 104 children. Our review disclosed the following:

We tested to verify that a current Placement and Payment Form was on file. For four of the cases we could not find a copy of the applicable form on file. The physical arrangement of many case files we examined was such that the form could have easily been misfiled or lost.

We tested to verify that the expenditure code and proper amount of expenditure were properly identified on all payments. We found three cases or three percent of the sample that was not properly identified. One was a payment to a temporary shelter for services on a day when the child was actually placed at a foster home. This case is cited below as an overpayment and as an exception to the criteria that payments be made only for services actually performed. One was a clothing purchase and the remaining one was for respite services. Both of these payments did not have receipts or other supporting documentation on file. As a result they were considered exceptions. The total value of these payments was $526.

We tested the payments to verify that the monthly board and care payments agreed with the approved rate schedule based on service code and age. These criteria were not applicable to 11 payments because they were miscellaneous payments for which the rate schedules were not applicable. Of the remaining 93, we found 20 cases or 22 percent of the sample that was paid at the wrong amount.

Most of the cases that were in error, 14 of them, were minor overpayments resulting from the use of the wrong daily rate for partial months' placement. In these instances, the daily rate was calculated based on a 30-day month when it should have been based on a 31-day month. The result was a daily rate slightly higher than it should have been. As a result, payments for these 13 cases totaled $4,676 when the correct amount that should have been paid was $4,539 Accordingly, the Department overexpended $137.

The remaining three overpayments were partial months' payments in which the wrong number of days was paid. Payment was made for days in which the child was not in that placement. Total payments for these three cases were $819; the correct amount was $184. As a result the Department overpaid its vendors a difference of $635, or 77 percent over the correct amount. These overpayment cases are also cited below as an exception to the criteria that payments be made only for services actually performed. One of these payments is also cited below as an underpayment of a board and care adjustment. This was because, in addition to a payment for a day the child was not in placement, that particular payment also included an error in which a foster home was paid the wrong daily rate based on the age of the child.

We also found four minor underpayments. One payment was made at the lower rate based on the age of the child and the three others were the result of the wrong daily rate being used. Total payments in this classification totaled $996; the correct amount that should have been paid was $1,052, resulting in a difference of $56.

The net result of these errors was a total overpayment to vendors of $715, of the $53,738 in payments tested.

We tested to confirm that the child was in placement at the home of the individual, or entity, which received the payment tested, or that other goods or services were rendered, as of the date of the payment. There were four cases or four percent of the sample that were considered to be exceptions. In addition to the three cases we found where payment was made after the child left that particular placement, there was one case that was a clothing purchase where the invoice could not be located. The total of that payment was $160.

*Cause:* The internal controls over the disbursements from the Child Welfare Account are not completely effective. The primary cause was the documentation of the authorization and purpose of the payment. Placement and payment authorization forms and vendor invoices, receipts or other supporting documentation were not filed or not prepared. Data contained on the computerized case management system did not match the payment records.

*Effect:* The authorization of payments from the Child Welfare Account is not documented. Payments can be made for incorrect amounts or for purposes not allowed under Department policies.

*Recommendation:* The Department should improve the internal controls over its board and care payment system. (See Recommendation 5.)

*Agency's Response:* "The placement and payment form which was cited in the finding has been replaced by an on line system which records the data. The issue of payments based on a 30 day month schedule was a limitation of the previous computer system which has been addressed with the implementation of the new computer system. Another benefit of the new system is the ability to match the payment to the correct age group by a verification of the payment against the date of birth contained in the child's record. Workers will again be advised of the necessity of maintaining proper documentation of the expenditures. The agency is considering developing a revised model for the standard Social Work Unit which would redefine the roles and responsibilities of the members of the unit, thereby clarifying the assignment of documentation maintenance."

<u>Case Worker Notification of Child Placements:</u>

*Criteria:* Section 3-117 of the Connecticut General Statutes and proper business practices require that payments of claims against the State are to be made only for goods or services certified as actually received.

*Condition:* Our testing of a sample of payments made from the Child Welfare Account found that the Department frequently pays providers for services that were never rendered (payments made to foster homes where the child no longer resides). This condition has been cited in previous audits of the Department and has continued throughout the 1995-1996 fiscal year.

On January 3, 1997, the Department reported the irregular handling of State funds by a social worker at one of its Regional Offices. The social worker deliberately failed to end the monthly board and care payments made to a foster home in which a child had left placement. The social worker directed the parents of that foster home to cash the checks, which totaled $1,927. The social worker then collected the monies from the parents of the foster home and, without authorization, forwarded those monies to the child. This transaction occurred with the knowledge of the supervisor of the social worker. This irregular transaction was only discovered when the parents of the foster home notified the Child Welfare Accounting Unit.

This matter was reported to the Governor and other State officials on April 11, 1997, as required by Section 2-90 of the General Statutes.

The Department of Social Services is also dependent upon DCF case workers for the timely notifications of child placements. Failing to provide notification of the date a child is placed in a home can result in errors determining the Aid for Families with Dependent Children and Food Stamp program eligibility for that home.

*Cause:* Most of the recurring monthly payments for foster care are set up on the DCF vendor payment system with an indefinite "end date," which means that payments will be generated each month until a date to stop the payments is entered into the system. We found case workers failed to prepare and submit payment and placement forms promptly to notify the system of children that have left or changed placements. We also found that case workers did not review the payment prelists and notify the Child Welfare Accounting Unit of corrections to be made. The new computer system, introduced by the Department in July 1996, is intended to prevent these vendor overpayments by linking the child placement and vendor payment records.

*Effect:* Payments are made to providers for services never rendered. In the fiscal year ended June 30, 1996, the Department recovered $1,976,392 in overpayments from the Child Welfare Account. The total amount of overpayments made cannot be determined.

*Recommendation:* The Department should require its case workers to promptly update the computer system of changes in child placements. The Department should establish a tickler file that requires social workers to review and confirm the active status of each case every month. (See Recommendation 5.)

*Agency's Response:* "As pointed out in the finding, the new system does link the payment directly with the placement. This will reduce overpayments and immediately create a credit in the system when the placement is recorded. Additionally the Department has initiated a centralized process for the data entry of placements in the residential facilities which is designed to ensure the timely and accurate recording of placements and issuance of payments. A similar enhancement is being considered for the entry of foster care placements."

**Equipment Inventory Records:**

Prior audits of the Central Office, the Regions and the facilities have presented concerns over inventory records for equipment. Our current review disclosed the following:

*Criteria:* The Comptroller's Property Control Manual and good business practice require supporting subsidiary equipment records, the immediate tagging of equipment and periodically documenting physical inventories of equipment. Proper internal controls and procedures specified by the Comptroller's Property Control Manual require the Department to establish and keep an inventory account in an approved form. The manual requires the recording of all personal property items having a useful life of one year or more and a value greater than $1000. The manual also requires each agency to maintain a listing of controllable property. Controllable property is defined as property with a unit value less than $1000 and an expected useful life of one or more years.

*Condition:* Our review of equipment records disclosed a number of concerns as follows:

We found that the Department's Central Office, Regional Offices and facilities did not maintain subsidiary records to support amounts reported, in total, on the Annual Fixed Asset/Property Inventory Reports. Instead, amounts from prior years' reports are carried forward, with additions made for purchases in total, and deletions made for surplus items.

We also found that the Central Office and Region 4 did not maintain any record of controllable property.

*Cause:* The Department failed to follow the procedures established by the State Comptroller.

*Effect:* The above conditions have the effect of weakening controls over equipment. The Annual Property Inventory Report submitted to the State Comptroller was inaccurate.

*Recommendation:* The Department should take steps to improve controls and reporting over its equipment inventories. (See Recommendation 6.)

*Agency's Response:* "Department personnel have been in contact with the Office of the Comptroller in order to gain additional knowledge to begin developing the necessary systems to bring the Department into full compliance with this recommendation."

**Supply Inventory Records:**

Prior audits of the Central Office and the facilities have presented concerns over the inventory records for supplies. Our current review disclosed the following:

*Criteria:* According to the State Comptroller's Property Control Manual, a separate perpetual inventory should be maintained on all stores and supplies.

Limiting access to the stockroom to only authorized personnel gives the assurance that store supplies are adequately safeguarded.

*Condition:* At the Central Office we found adjustments were made to inventory records to correct discrepancies detected by physical counts. These adjustments were made without managerial approval.

At the State Receiving Home we found inadequate control over the stockrooms. Supplies are removed from inventory without the authorization or knowledge of the storekeeper.

At each institution in the Department we randomly selected a sample of supply items for a physical count. At the State Receiving Home, Long Lane School and High Meadows Hospital we found that for several of the items tested the physical count did not match the inventory record.

*Cause:* The Department failed to follow the procedures established by the State Comptroller.

*Effect:* Supply inventory records are not being kept in a manner consistent with the requirements of the Comptroller's Property Control Manual. The failure to limit access to the stockroom can result in losses by theft.

*Recommendation:* Supplies inventory records should be kept in a manner consistent with the requirements of the State Comptroller's Property Control Manual. Access to the stockroom should be controlled. Adjustments to inventory records should be reviewed by management. (See Recommendation 7.)

*Agency's Response:* "Department personnel have been in contact with the Office of the Comptroller in order to gain additional knowledge to begin developing the necessary systems to bring the Department into full compliance with the State Comptroller's Property Control Manual."

**Accounts Receivable:**

Our review of the Department's financial records identified accounts receivable from various sources that did not have proper records or proper accounting controls.

*Criteria:* Maintaining formal accounts receivable records is a good business practice that improves internal control over receipts and the balances in accounts receivable. It enhances the Department's ability to provide complete and accurate financial information for GAAP reporting.

*Condition:* Our review of the Department's records found that due to errors or omissions made by its case workers the Department frequently pays providers for services never rendered (payments made to foster homes where the child no longer resides). If identified, these payment errors result in accounts receivable. The controls over these receivables are poor and little effort is made to contact debtors. During the fiscal year ended June 30, 1996, the Child Welfare Account was credited for $1,976,392 in recoveries of overpayments. The Department did not maintain a formal accounts receivable record of the overpayments made from the Child Welfare Account.

We compiled an estimate of $557,932 as of June 30, 1996, by adding the 222 new accounts totaling $131,417 from the 1995-1996 fiscal year to the $426,515 in receivables compiled during our audit of the 1994-1995 fiscal year. Many of these amounts could be uncollectible, or have been assigned to the Bureau of Collection Services, or there may have been collections made and not posted to these records. We found the internal controls and records to be extremely poor. We cannot determine an accurate total without a complete analysis of each account. An analysis of the average age of these accounts has provided us with an estimate that 90 percent of these accounts are most likely uncollectible.

We also identified another set of accounts, both receivables and payables, resulting from either overpayments or unpaid billings from or to institutions. We compiled a net estimate of $725,063 in receivables, as of June 30, 1996, by adding the 59 individual accounts. Each account contains individual accounts receivable and payable applicable to individual children. The condition of the records and controls is poor, and it is impossible to produce an accurate total. In our review of these records for the 1994-1995 fiscal year we estimated that 205 of these accounts, totaling $145,000, may not actually be an account payable or receivable. Because all of the institutions involved are currently providing services for the

Department, we considered none of the amounts due from them to be uncollectible.

*Cause:* The Department failed to prepare a set of centralized and complete accounts receivable records and establish a system to collect overdue accounts.

*Effect:* There is a loss of control over the monies due the Department. Specifically, this could result in accounts receivable which are never recognized by the Department, amounts due the Department that are not pursued, and no effective means to insure that payments made against such receivables are properly accounted for.

*Recommendation:* The Department should establish proper accounts receivable records and procedures for the collection of overdue accounts. (See Recommendation 8.)

*Agency's Response:* "The Department has begun a formal accounts receivable process as described in a previous agency response. The addition of an accountant in the Child Welfare Accounting Unit devoted to this process has allowed the unit to address this issue. This function will be expanded to capture all receivables."

**Recovery of Indirect Costs:**

Federal cost principles allow for the recovery of indirect costs associated with the Department’s administration of Federally funded programs. Such recoveries represent revenues to the State General Fund.

*Criteria:* Indirect costs are allowable costs that should be charged to Federal programs, at the approved indirect cost rates. State agencies are required to recover indirect costs, unless Federal program regulations specifically prohibit them, or, if a waiver is obtained from the Office of Policy and Management.

*Condition:* Our previous audits have cited the Department for its failure to charge indirect costs to three of its Federal grant programs. Our current audit found that the Department did request, and on August 2, 1996, received a waiver from the Office of Policy and Management for the Criminal Justice Drug Abuse program. For the Independent Living and Child Welfare Administration grant programs the Department paid the remaining balance in the closed out grant at the end of the fiscal year as an indirect cost recovery. For the fiscal year ended June 30, 1996, the Child Welfare Administration grant was charged $183 in indirect costs. This is an infinitesimal amount in relation to the total of $1,457,617 in Department personal services charged to the grant and the related overhead costs associated with those employees.

*Cause:* Indirect cost recovery rates, which are customarily at a high percentage, are applied against the direct payroll charged to the Federal program. As a result, State agencies are reluctant to charge indirect costs, because it results in a significant loss of program funds.

*Effect:* The Department did not charge the Child Welfare Administration Federal grant program with the indirect costs associated with it, resulting in a loss of General Fund revenue.

*Recommendation:* The Department should either charge the appropriate indirect costs against all of its applicable Federal grant programs or obtain a waiver from the Office of Policy and Management. (See Recommendation 9.)

*Agency's Response:* "The agency will take the necessary steps to comply with this recommendation."

**Time and Attendance Records:**

Our previous audit report, covering the 1993-1994 fiscal year, cited poor internal controls. It noted that sign-in sheets or any other records providing a timely record of employee leave times were often not retained, or often not maintained at all. These findings were repeated in our audit report for the 1994-1995 fiscal year. Our current audit, covering the 1995-1996 fiscal year, sampled and examined a number of individual time records at the Department's facilities. Based on this follow up review we present the following:

*Criteria:* Proper accountability of personal services expenditures requires that the days and hours for which employees are compensated be documented in a permanent and accurate record.

*Condition:* As the result of a previous audit recommendation, the Department introduced a centralized automated time and attendance system (BOSS). Its internal controls required time reports, signed by the employee and reviewed and approved by the appropriate supervisor, in order for data to be entered onto the system. These timesheets document the leave time taken by the employee. The system will automatically post the vacation and leave time earned each month but requires the entry of data from the employee timesheet to charge for sick and vacation leave taken.

Our audit found that the Department did not promptly post the timesheets to the automated system. Out of a sample of 25 employees there were 12 that did not have the time and attendance record posted

to date. We found that because of the inaccurate records, one of the 25 employees sampled was allowed to use more vacation leave then was available.
Our audit also found that out of the same sample of 25 employees there were two employees for whom the Department could not locate the permanent attendance and leave record.

We also noted that the Department has not fully implemented its automated system of attendance reporting. Some of the Department's locations continue to maintain subsidiary time and attendance records that were a duplicated and unnecessary set of records.

*Cause:* The Department cited a lack of sufficient personnel to maintain the attendance records on a current basis. In addition, the Department has not fully implemented a single uniform automated attendance system throughout its facilities.

*Effect:* Employee attendance records are not kept current. Employees are allowed to charge leave time that they have not accrued.

*Recommendation:* Time records should be posted in a timely manner. A single automated time and attendance system should be adopted in all of the Department's individual units. (See Recommendation 10.)

*Agency's Response:* "The Department continues to work towards implementation of the BOSS Time & Attendance system. Currently two of the Department's regions and three of its institutions are on BOSS and up to date. The goal is to have the entire agency on BOSS by July 1, 1998. It is the Department’s goal that the BOSS Time & Attendance system will be interfaced with the Department's automated payroll system by July of 1998."

**Overtime Costs:**

Overtime costs for the Department increased from approximately $5,616,000, for the fiscal year ended June 30, 1995, to approximately $6,609,000 for the fiscal year ended June 30, 1996. This increase in overtime expenditures occurred despite improvements at Riverview Hospital that reduced overtime costs at that facility by approximately $600,000. Department memoranda indicated this was the result of better management and the change, for certain patient care employees, to a work day of eight regular hours instead of seven regular hours and one overtime hour that was used previously. Also, because of the consolidation of Altobello Center and Housatonic Hospital into Riverview Hospital, the institution had more than adequate staff available. Our review found an increase in the overtime costs at the State Receiving Home, no improvement at other institutions, and a significant increase in overtime hours at the Department's Regional Offices.

*Criteria:* Section 8-5 of the Department of Children and Families Policy Manual states that overtime work is to be approved by managers only when such situations are deemed "absolutely necessary." Absolutely necessary is defined as critical to public health, welfare and safety; or is needed for the essential management of State responsibilities. Limiting the authorization of overtime to only those instances where critical duties must be performed outside the regular workday is a good business practice that promotes the efficient use of State resources.

*Condition:* Overtime at the Receiving Home increased by 11 percent from the 1994-1995 fiscal year to the 1995-1996 fiscal year. The High Meadows Treatment Center showed a three percent decline from the 1994-1995 fiscal year to the 1995-1996 fiscal year. We noted that both of these institutions had a high percentage (13 percent) of overtime costs in relation to overall personal services costs. The areas of residential care, medical care and food service were indicated as the source of the significant overtime costs.

Overtime costs at the Regional Offices increased from $1,608,299 in the 1994-1995 fiscal year to $3,075,311 in the 1995-1996 fiscal year, an increase of 91 percent. The areas of investigations and ongoing services were indicated as the source of the increase in overtime.

*Cause:* Our previous audit, investigating the reasons for the increase in the overtime paid at institutions, found that the approval of negotiated side agreements to collective bargaining contracts limited the ability of management of the Department's institutions to schedule direct care staff efficiently. These side agreements will continue to be in effect until June 30, 1997.

Our current audit reviewed the causes of overtime costs at the High Meadows Treatment Center in detail. We noted minor changes in staffing have significant effects on overtime costs. A single vacant position for a cook resulted in $46,885 in additional overtime costs for one year because other cooks in the institution were required to cover that shift. We also found the institution made studies to confirm that the use of on-call part time positions for child care workers would significantly reduce overtime. Employees out on maternity leave, out on workers' compensation or on light duty, holidays, vacation and sick leave and training all require overtime from other employees to cover the shift and provide adequate client care coverage.

We found similar causes for increased overtime in our review of the overtime costs at the State Receiving Home. An increase in the number of children that required more intensive care placed greater demands on the direct care staff. When a child requires one to one staff supervision for that child's stay, considerable additional employee hours are required to provide the necessary staff coverage. The increases in overtime costs in the maintenance and food service units were caused by vacant positions.

Department officials explained that the stricter standards implemented to protect children in the Department's care are the cause of the increased overtime at the regional offices. An increased number of complaints to investigate and more frequent home visits requires employees to work extra hours and after the normal State work day. Treatment workers are now required to visit homes more frequently and visit all members of the household. Frequently this requires home visits to be made after normal State working hours when the parents of children are at home. We noted that during the previous fiscal year the Department had considered, but was unable to implement, a second shift to alleviate this condition.

*Effect:* The payment of overtime in instances where duties performed are not critical, or could be performed during regular working hours, is an inefficient use of State resources.

*Recommendation:* The Department should continue its efforts to control overtime costs by establishing work schedules that would allow for the visitation of clients after normal work hours. It should also consider using part time workers to provide for special client needs or to cover employee absences. (See Recommendation 11.)

*Agency's Response:* "A significant effort aimed at reducing overtime usage was implemented during the final quarter of the 1995-1996 and has been successful in reducing the overtime costs in the current year. This effort has resulted in the reduction of over $750,000 in General Fund overtime costs during the current fiscal year as compared to the previous year. Continued monitoring of overtime costs is planned for the coming year."

**Miscellaneous Payments from the Child Welfare Account:**

Department policies include replacement clothing and transportation expenses as part of the basic foster care reimbursement rate. The Department of Children and Families Policy Manual authorizes the purchase of a change of clothing for a child with no clothes or without an adequate supply of clothes at the time of the child's initial placement into DCF care. The Department also purchases replacement clothing for children placed in private residential facilities. During the 1995-1996 fiscal year the Department expended approximately $1,450,000 on clothing for children in its care.

Clothing Allowances:

*Criteria:*

The DCF Policy Manual clearly states the requirements and limitations on purchases of clothing for children placed in foster care. The policy provides for an adequate supply of seasonal clothing to be purchased when the child is first placed, in an amount not to exceed $300 and generally consisting of smaller articles of clothing. An exception is allowed for more expensive single items, such as a winter coat, when necessary. The purchases are made on a purchase order used specifically for this purpose.

After the initial payment, the monthly maintenance payments received by the foster parent includes an allowance that covers the subsequent clothing needs of the child. This allowance ranges from $445 to $845 depending on the age of the child. A clothing allowance is not included in the monthly rates paid private institutions. For children placed in private residential care, the Department's policies allow reimbursements up to a maximum of $160.50 per quarter ($642 per year), which is billed separately from the initial clothing purchase.

Good business practices dictate that purchases should be reasonably priced and appropriate and that responsible parties approve said purchases. Proper internal control requires the Business Office to review and approve purchases made by program staff.

*Condition:*

Our review of a sample of initial clothing allowances paid found the following:

In ten out of the 35 cases we tested, or 29 percent, the child received clothing allowances that exceeded the one-time allowance of $300.

In many instances these payments were made for children who have already been in DCF placement for several years, making it very likely they have already received an initial clothing allowance. We also noted it is quite likely that many of the clothing payments tested were paid when the foster parents were already receiving the monthly maintenance payments. The monthly foster care rate already includes an allowance for replacement clothing.

Five of the ten cases that exceeded the one time allowance were children placed in private residential facilities. We found two cases in which a child received both an initial clothing allowance and quarterly clothing allowances that exceeded the $160.50 limit for a quarter.

A review of the vendor receipts found that some of the items purchased did not appear to match the age and/or sex of the child they purportedly were purchased for or purchased by. We also found that some items of clothing purchased, while otherwise allowable, appeared to be excessively priced and/or inappropriate as standard clothing. We found that in many of the payments sampled the foster child often signed the Department's purchase order as the buyer.

*Cause:* The Department's case workers appear to misunderstand and/or disregard the DCF Policy Manual. The Department failed to follow good business practices and establish adequate internal controls.

It also appears that the record-keeping system at the Central Office is inadequate to keep up with the volume of transactions and to enforce the Department's policies. We noted that at the time of our review (November 1996), the Department had a total of approximately $190,000 in unpaid clothing vouchers on hand.

*Effect:* Expenditures for clothing are being made which are not in accordance with the established policy. Financial resources are not being used properly. We estimate that $300,000 or more in excessive clothing purchases are being made each year.

*Recommendation:* Miscellaneous payments from the Child Welfare Account should comply with established Department policy. The Department should consider issuing specific guidance to the social workers and others regarding which clothing items are allowable under the purchase order and establishing an authorized price for individual items. If it is necessary for the Department to purchase various child care items using the clothing purchase allowance, the Department should make the necessary changes to the DCF Policy Manual and establish proper internal controls to govern such purchases. Purchases should be limited to the immediate clothing needs of the child at the time of placement. The Department should not make separate payments of clothing expenses that are included in the basic foster care reimbursement. The Department should consider requiring the business office at each region to approve the purchase order and to supervise expenditures made. (See Recommendation 12.)

*Agency's Response:* "The Department is reviewing its policies regarding the payment for initial clothing allowances and will be developing recommendations internally to establish additional controls on the use of clothing vouchers."

<u>Transportation Expenditures:</u>

*Criteria:* The Department's Policy Manual states that the basic transportation expenses of children placed in foster care is included as part of the monthly maintenance payment made to the foster parent. This allowance ranges from $91.25 to $126.67 per month, depending on the age of the child. According to the policy, transportation expenses covered in the monthly maintenance rate include those for public transportation.

*Condition:* The Department has made separate payments for transportation expenses that were already included in the monthly maintenance payment paid to the foster parent. Our test sample found approximately 36 percent of the payments made were for monthly bus passes, at a cost of about $38 each. The Department paid over $403,000 in transportation expenses during the 1995-1996 fiscal year, and we estimate approximately $145,000 was paid for intracity public transportation, an expense that is included in the basic foster care rate.

*Cause:* The Department's case workers appear to misunderstand and/or disregard the DCF Policy Manual. The Department failed to follow good business practices.

*Effect:* The Department is paying twice for the transportation expenses of some children placed in foster care.

*Recommendation:* Miscellaneous payments from the Child Welfare Account should comply with established Department policy. The Department should not make separate payments of transportation expenses that are included in the basic foster care reimbursement. The Department should consider requiring the business office at each region to supervise expenditures made. (See Recommendation 12.)

*Agency's Response:* "Transportation expenses incurred in the “reasonable effort” to reunify families will continue to be charged in the same manner. The issuance of a bus pass to a biological parent is not the same as duplicating a payment in a foster care rate. In the first instance a bus pass is issued to a biological parent for the purpose of providing transportation for a visit to the child and in the second case an allowance for transportation of the child is built into the foster care rate which is paid to the foster parent."

*Auditors' Concluding Comments:*

Our findings referred to those payments made for bus passes issued to a child placed in foster care. The Purchase Order and Invoice Form

(DCF-1027) on the cases we cited clearly listed the child as the recipient of the bus pass. The Department has a Request for Special Board Rate or Exceptional Expense Form (CYS-472) to document the supervisory approval of bus passes purchased for the biological parent. Our review found that these forms were not on file and that were not used when necessary.

**Lack of an Effective Internal Audit Program:**

*Criteria:* Proper business practice and proper managerial controls strongly suggest that an agency utilizing decentralized operations with regional units and multiple facilities have a mechanism to evaluate financial and program effectiveness. During the 1995-1996 fiscal year the Department expended over $30,000,000 in State grants-in-aid to various nonprofit agencies. Auditing organizations should be organizationally located outside the management function of the unit under audit and report their results to the head or deputy head of the agency.

*Condition:* We found that three of the six persons assigned to the Department's Internal Audit Unit were performing routine accounting duties for the Department's business office. The Internal Audit Unit is part of the Department's Bureau of Administration and Finance and as such reports to the same management as the business office. We also found that during the 1995-1996 fiscal year, the Department's Internal Audit Unit had conducted only four monitoring visits, and only two audits, of its over 130 grantees.

*Effect:* Monitoring and control of the Department's Regional Offices, its facilities and the activities of its grantees or contractual providers is rendered less effective. We believe that there is a need to perform detailed monitoring of grantees and contractual providers that the Department's Regional Offices are unable to provide.

*Cause:* The Department's management has not made the function of internal audit a high priority. Management has not given the Internal Audit Unit the necessary independence to function effectively.

*Recommendation:* The Department should strengthen its Internal Audit Unit in order to effectively monitor its Regional Offices, its facilities and its grantees and private providers. (See Recommendation 13.)

*Agency's Response:* "An examination of all of the roles and functions of the Internal Audit Unit is underway. Consideration is being given to restructuring the unit in a way which will more adequately address the concerns raised in this finding."

**Misuse of Emergency and Temporary Appointments:**

*Criteria:* According to Section 5-235 of the General Statutes the Commissioner of Administrative Services may authorize the filling of a position at once by provisional appointment, pending the establishment of a reemployment or candidate list. Any such provisional appointment shall continue until a reemployment or candidate list for such position is established and, in no case, for a period exceeding a total of six months. No person shall receive more than one provisional appointment or serve more than six months as a provisional appointee in any one fiscal year. Temporary appointments shall be authorized for not more than six months and such appointments shall not be renewed within any fiscal year. Also, qualified persons may be appointed during an emergency for a period of not more than two months and such appointments shall not be renewed.

*Condition:* We reviewed the records of 12 employees that were in provisional, temporary or emergency appointments during the audited period. We found the agency was in violation of the Statute limiting the durational period for such appointments for eight of them, or 62 percent of the sample.

Emergency appointments of two employees were changed to temporary or provisional appointments at the expiration of the initial appointment. Temporary appointments of three employees were continued as temporary or changed to emergency appointments at the expiration of the initial appointment; they were then changed to temporary or emergency appointments after the expiration date of the second appointment. One employee was allowed to work past the expiration date of a temporary appointment until the employee could receive a permanent position. One employee was employed in an emergency position, then rehired as a temporary employee, then hired as an emergency employee and then as a durational employee, within the same year. One employee was hired as a durational employee pending results of an examination, then was reclassified as an emergency employee until the employee received a permanent position eleven months after the initial appointment.

*Cause:* Agency officials stated that the Department needed to let these provisional, temporary or emergency employees continue to work until an exam was conducted, and a candidate list established, by the Department of Administrative Services - Bureau of Human Resources.

*Effect:* The Department is in violation of Section 5-235 of the General

Statutes.

*Recommendation:* Employees appointed to provisional, temporary or emergency positions should not be allowed to continue work in such positions after the expiration of the maximum period allowed by Statute. (See Recommendation 14.)

*Agency's Response:* "In order to provide continuity of service, appointments of a temporary nature have been made pending final decisions for permanent appointments or transfer. Personnel Officers will be advised of this audit finding and will be instructed to monitor more closely temporary appointments. The Division of Human Resources has recently restructured and developed work teams reporting to one supervisor; this too should help with the monitoring of appointments. After discussion with the Department of Administrative Services, movement from provisional appointments to emergency appointments are permissible as long as there is not more than one provisional or emergency appointment in a given fiscal year. This continues to be necessary as these appointments are made pending State personnel examinations."

**Medical Certificates for Extended Use of Sick Leave:**

*Criteria:* According to employee bargaining unit contracts, a signed statement of the reasons for the absence is required of an employee to substantiate the use of sick leave for any period of absence in excess of five consecutive working days. Employees that are not covered by provisions of a collective bargaining unit are required to provide an acceptable medical certificate, signed by a licensed physician, to substantiate the use of sick leave for five consecutive working days.

*Condition:* Our test check of five employees at the State Receiving Home disclosed that one of them did not have the required statement or medical certificate on file. One of the seven employees we tested at the Central Office and three out of the five employees we tested at High Meadows Hospital also did not have the required statement or medical certificate on file.

*Cause:* The Department did not effectively enforce the requirement that its employees submit the required certificates.

*Effect:* Abuse of sick leave by employees can occur and not be detected if the required medical certificates are not submitted.

*Recommendation:* The Department should effectively monitor the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days. (See Recommendation 15.)

*Agency's Response:* "This issue will be reviewed by the Division's Process Improvement Team. A process will be identified to improve communication between the employee's supervisor, payroll and personnel to help ensure receipt of the required medical certificates."

**Theft of Cellular Telephones:**

*Criteria:* Section 31-6-4.11 of the Department's Policy Manual states that cellular telephones made available to employees in regional offices shall be secured in one location in each office. It also states that employees must sign out phones when taking them and return the phone at the end of the day.

*Condition:* On January 10, 1997, the Bridgeport Regional Office of the Department was notified by the State Police that several of the cellular phones belonging to the Region were currently being used by area drug dealers. A police investigation found that a social worker for the Region was suspected of taking the phones. The phones were stored in an unlocked cabinet in the business office.

Four phones were noted missing by the business office on November 14, 1996, and three were noted missing on December 12, 1996. Of the seven phones that were missing, records showed that six of them were never signed out. Prior to these dates the business office sent notices to the staff in an attempt to locate and recover the missing phones. The business office did not attempt to discontinue service to the phones for several weeks until after they had attempted to locate them.

The social worker accused of the thefts was arrested on January 28, 1997; he was dismissed from State service on February 21, 1997.

*Cause:* The Region maintained poor controls over its cellular telephones. The phones were not stored in a locked area. Phones that were unaccounted for and not returned upon request did not have their service promptly discontinued.

*Effect:* The effect was the misuse and theft of State resources.

*Conclusion:* The Region has improved the security over its cellular phones; therefore, we are not making a Recommendation on this matter. We have reported this incident to the Governor and other State officials on August 8, 1997, as required by Section 2-90 of the General Statutes.

**Electrical Repairs - Stamford Local Office:**

*Criteria:* Proper business practice requires that State agencies making repairs, alterations or additions to real property obtain multiple bids and employ a written contract.

*Condition:* In November 1996, employees at the Stamford DCF suboffice noted the lights in the rear parking lot of its offices had failed. On December 12, 1996, an employee fell on the stairs, and was out on Workers' Compensation. After numerous complaints to the building landlord, the purchasing officer for the Region met with the landlord. At a meeting on January 3, 1997, the landlord stated that he would fix the problem, but no action resulted.

Several days later the Regional Administrator instructed the purchasing officer to repair the lighting promptly. The purchasing officer contacted the landlord and received the name of his electrician, but, when contacted, the electrician stated he was unavailable to do the work. The business manager then instructed the purchasing officer to seek bids and to expend no more than $1000 for the repairs. Four local electricians listed in the telephone directory were called and asked if they were available to make emergency repairs. Only one responded that he was available. He came out, evaluated the situation, and gave an oral estimate of between $2000 and $3000 in repairs. No other contractors were solicited, no other bids were received and no written contract was prepared. The business manager authorized that contractor to proceed with the work intending to deduct the costs from the monthly lease payment for the building. He had contacted the Lease Compliance Unit at the Department of Public Works and was told that the deduction of the cost of repairs from the monthly lease payment was acceptable. The work took eight days to complete and was finished on February 7, 1997. The final cost was $11,386 of which $1,760 was for parts and $9,600 was for labor.

The contractor stated that the poor condition of the wiring and fixtures in the building was the cause of the cost overrun. The contractor replaced two outside light fixtures, the timer and some wiring. On the day the Regional Office received the bill, February 7, 1997, the Region learned that the building was recently sold, and the new owners were unaware of the situation regarding the lighting.

The lease for the building states that "The landlord shall furnish and pay for . . . lighted parking, replacement of burnt out ballasts, and maintenance and repairs as may be required during the term of occupancy." The Department intends to refer this matter to the

Attorney General to collect the cost of repairs from the old landlord. Because it was not aware the building was being sold, the Regional Office did not file a lien for the cost of the repairs.

At the time of our review (March 1997) the Department's Central Office was conducting an investigation into the poor judgement of the business manager.

*Cause:* The Regional Office did not follow the procedures established by the Department of Public Works for repair projects. The Regional Office did not obtain proper bids from more than one vendor.

*Effect:* The result was the irregular expenditure of State funds. The Department may not be able to recover the cost of improvements made to the leased building.

*Conclusion:* This was an isolated incident. Therefore, we are not making a recommendation in this matter.

**RECOMMENDATIONS**

*Status of Prior Audit Recommendations:*

- The Department should improve the effectiveness of its revenue enhancement effort by improving the eligibility determination process for the Title IV-E program. We found some improvements have been made. The Department's consultant has reviewed all of the outstanding cases from prior years that were not determined as eligible for Title IV-E. The review has resulted in significant Federal recoveries. Our current review still found a significant number of cases that were not promptly assigned an eligibility code. We are repeating the Recommendation in a modified form. (See Recommendation 2.)

- To improve control over grant funds, Regional Office staff should require, approve, and monitor specific cost allocation plans. Reports submitted by grantees should be reviewed in a timely manner. Unused funds and disallowed costs could therefore be identified and requested back in a shorter period of time. Our current audit found that the Department has not yet implemented its plan for the review and approval of cost allocation plans. We also found that the quarterly financial reports for some grants administered by the Central Office were received late. The Recommendation is being repeated in a modified form. (See Recommendation 3.)

- Contract payments should comply with the requirements established by the contract agreement and the Department's purchase orders. Our test of payments made for the computer conversion contract found that payments were made to the correct milestones and to the correct purchase order reservation of funds. Therefore, the Recommendation is not being repeated.

- The Department needs to supply more accurate and complete information to the State Comptroller as part of the GAAP reporting process. The Department's GAAP report for the 1995-1996 fiscal year was incomplete and inaccurate. This Recommendation is being repeated. (See Recommendation 4.)

- The Department should exercise greater control over its board and care payment system. The Department has improved controls over unissued checks. Checks are now mailed immediately after printing and signing. However, our review of board and care payments made during the 1995-1996 fiscal year found exceptions similar to those noted in the previous audit. The Recommendation is being repeated. (See Recommendation 5.)

- The Department needs to improve its controls and reporting over equipment inventories. We again found the inventory records maintained by the Department to be incomplete. This Recommendation is being repeated. (See Recommendation 6.)

- Supplies inventory records should be kept in a manner consistent with the State Comptroller's Property Control Manual. At the time of our review (May 1997) the Department had not completely implemented the necessary corrective action. The findings concerning the controls and reporting over supply inventories are being repeated in a modified form. (See Recommendation 7.)

- Accounts receivable records and procedures for the systematic gathering of the related financial information should be established by the Department. The Department has taken some action to establish accounts receivable records and procedures. At the time of our review (May 1997) a complete set of accounts receivable records has not yet been prepared. The Recommendation is being repeated. (See Recommendation 8.)

- The Department should request the establishment of indirect cost rates through the Office of the State Comptroller, and charge such costs against all applicable Federal grant programs. In the absence of such, a waiver should be obtained from the Office of Policy and Management. Our current audit found the Department had one program that was not charged the proper indirect costs. We are repeating this Recommendation in a modified form. (See Recommendation 9.)

- A single automated time and attendance system should be adopted in all the Department's individual units. We found that time and attendance reporting throughout most of the Department was improved. We did find that leave time used was not posted to the automated system promptly. We also noted that because the automated system was not fully implemented and records were not kept current, there were some units at the Department's facilities that still maintained a duplicate set of manual records. The Recommendation is being repeated in a modified form. (See Recommendation 10.)

- The Department should take steps to control its increasing overtime costs. Our current audit found that the Department had made progress in controlling the overtime hours at some of its locations. However, we also found that overtime hours at the Department's Regional Offices have increased significantly. We found overtime costs that were incurred because staff members were not available on a part time on-call basis to cover for employees out on leave, to cover positions that were vacant, to provide services after normal work hours or to provide for special client needs. We are again recommending attention to this matter. (See Recommendation 11.)

- Miscellaneous expenditures from the Child Welfare Account should comply with established Department policy. Our current audit found no corrective action has been made. The Recommendation is being repeated. (See Recommendation 12.)

- The Department should strengthen its internal audit unit to effectively monitor its Regional Offices, its facilities and its private providers. The Department has not made the necessary changes to make its Internal Audit Unit an independent, effective organization. The Recommendation is being repeated. (See Recommendation 13.)

- Employees appointed to provisional, temporary or emergency positions should not be allowed to continue work in such positions after expiration of the maximum period allowed by Statute. We again found employees appointed to positions in a manner that is in violation of

Statute. The Recommendation is being repeated. (See Recommendation 14.)

- The Department should review the assignment of State owned vehicles to its personnel to ensure that those vehicles are being used as efficiently and effectively as possible. We found improvements have been made. We consider the Recommendation implemented.

*Current Audit Recommendations:*

1. **The Department should review the organization, controls and procedures over the monitoring of its grant recipients.**

   Comment:

   The Department has not created an organization that works efficiently and effectively to monitor the fiscal and programmatic performance of its grant recipients.

2. **The Department should improve the effectiveness of its revenue enhancement effort by providing prompt eligibility determinations for the Title IV-E program.**

   Comment:

   The Department should make all efforts to ensure that children potentially eligible for the Title IV-E program are promptly determined or redetermined as eligible and are promptly assigned an eligibility code.

3. **To improve control over grant funds, quarterly financial reports from grantees should be submitted and reviewed in a timely manner. The Department should review and approve the specific cost allocation plans submitted by grantees.**

   Comment:

   Quarterly financial reports for State grants-in-aid were not submitted in a timely manner. Most of the reports that were on file were not reconciled to the grant budgets to identify grant overpayments for collection. The Department has not yet implemented our Recommendation from previous audits regarding the submission, review and approval of cost allocation plans from grantees.

4. **The Department needs to supply more accurate and complete information to the State Comptroller as part of the GAAP reporting process.**

   Comment:

   The Department failed to report the accounts receivable from the Child Welfare Account. It also incorrectly reported its equipment inventories and other financial information.

5. **The Department should improve the internal controls over its board and care payment system. It should require its case workers to promptly update the computer system of changes in child placements.**

   Comment:

   Our review disclosed a number of payments from the Board and Care checking account considered to be either unsupported or for the wrong amounts. Payments were continued in error to foster homes and institutions that the child had left placement.

6. **The Department needs to improve the controls over its equipment inventories. Equipment inventory records should be kept in a manner consistent with the State Comptroller's Property Control Manual**.

   Comment:

   The Department's Central Office, regional offices and institutions do not maintain subsidiary records to support amounts reported, in total, on the Annual Fixed Asset/Property Inventory Reports.

7. **Supplies inventory records should be kept in a manner consistent with the State Comptroller's Property Control Manual**.

   Comment:

   Access to the stockroom should be limited only to the stockroom employees, and supplies should only be purchased to the extent of the quantity needed. Adjustments to inventory records, due to differences identified during physical counts, should be approved by supervisory personnel.

8. **The Department should establish proper accounts receivable records and procedures for the collection of overdue accounts.**

   Comment:

   The Department has a significant amount of accounts receivable from the overpayment of board and care expenditures. A balance of these accounts should be formally maintained and collection efforts should be promptly and periodically made.

9. **The Department should budget and charge indirect costs against the applicable Federal grant programs. In the absence of such, a waiver should be obtained from the Office of Policy and Management.**

   Comment:

   The Department has not charged the proper amount of indirect costs nor obtained a waiver for the Child Welfare Administration Federal grant program.

10. **Time and attendance records should be posted in a timely manner. A single automated time and attendance system should be adopted in all the Department's individual units.**

    Comment:

    We found that used leave time was not posted to the automated system promptly. We also noted that because the automated system was not fully implemented and records were not kept current, there were some units at the Department's facilities that still maintained a duplicate set of manual records.

11. **The Department should take steps to control its increasing overtime costs.**

    Comment:

    We noted a significant increase in the overtime hours incurred at some of the Department's Regional Offices and continued significant overtime costs at some of its facilities.

12. **Miscellaneous expenditures from the Child Welfare Account should comply with established Department policy.**

    Comment:

    The Department should consider issuing specific guidance to the social workers and others regarding which clothing items are allowable under the purchase order and establishing an authorized price for individual items. Non-clothing items should not be purchased using the clothing purchase order. Purchases should be limited to the immediate clothing needs of the child at the time of placement. The Department should not make separate payments of clothing and transportation expenses that are included in the basic foster care reimbursement. The Department should consider requiring the business office at each region to approve the purchase order and to supervise expenditures made.

13. **The Department should strengthen its internal audit unit to effectively monitor its Regional Offices, its facilities, its grantees and its private providers.**

    Comment:

    > The Department should not assign its internal audit staff to perform routine accounting duties for the business office.

14. **Employees appointed to provisional, temporary or emergency positions should not be allowed to continue work in such positions after the expiration of the maximum period allowed by Section 5-235 of the General Statutes.**

    Comment:

    > Our sample of 12 employees in provisional, temporary or emergency appointments found eight, or 62 percent in violation of the Statute limiting the durational period for such appointments.

15. **The Department should effectively monitor the receipt of required medical certificates from employees on sick leave in excess of five consecutive working days.**

    Comment:

    > Our test check of 28 employees that were on sick leave in excess of five consecutive days disclosed five that did not have the required statement or medical certificate on file.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Children and Families for the fiscal year ended June 30, 1996. That audit was limited to performing tests of the agency's compliance with certain provisions of laws, regulations, contracts and grants and to understanding, and evaluating the effectiveness of, the agency's internal control structure policies and procedures established to ensure such compliance. The financial statement audit of the Department of Children and Families for the fiscal year ended June 30, 1996, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards for financial related audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Children and Families complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control structure to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### Compliance:

Compliance with laws, regulations, contracts and grants applicable to the Department of Children and Families is the responsibility of the management of the Department. As part of obtaining reasonable assurance about whether the agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the agency's financial operations for the fiscal year ended June 30, 1996, we performed tests of the agency's compliance with certain provisions of the laws, regulations, contracts or grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

### Internal Control Structure:

The management of the Department of Children and Families is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities or unauthorized, illegal, irregular or unsafe transactions may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Department of Children and Families' compliance with certain laws, regulations, contracts and grants for the fiscal year ended June 30, 1996, we obtained an understanding of the internal control structure.

For the purpose of this report we have classified the Department of Children and Families' significant internal control structure policies and procedures in the categories of payroll, cash disbursements, purchasing and receiving, grant payments, cash receipts, inventory and property control and reporting systems.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of performing tests of the Department of Children and Families' compliance with certain provisions of laws, regulations, contracts and grants and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under generally accepted government auditing standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the agency's ability to ensure that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports.

We noted the following reportable conditions- There were weak accounting and/or administrative controls over disbursements from the Child Welfare Account. There were weak accounting and/or administrative controls over the Department's property and equipment records and GAAP reporting. There were weak accounting and/or administrative controls over the Department's accounts receivable records and poor administrative controls over the monitoring of grant recipients.

A material or significant weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the agency's financial operations, or significant unauthorized, illegal, irregular or unsafe transactions may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses as defined above. We believe the reportable conditions concerning weak accounting and administrative controls over the Child Welfare Account to be material weaknesses. Our description of these conditions are found in the "Condition of Records" and "Recommendations" sections of this report.

We also noted other matters involving the internal control structure and its operation that we have reported on in the "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

## CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Children and Families during the course of our examination.

Matthew Rugens
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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